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Canada Textile Industry Royal Commission on the



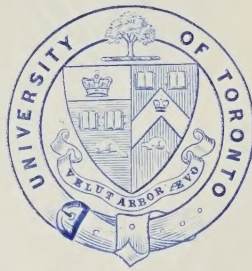
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ARGUMENT




MONTREAL COTTONS LIMITED
CANADIAN COTTONS LIMITED
WABASSO COTTON COMPANY, LIMITED

351748
14.6.38.



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FABRICS PRODUCED

PAGE IN
BRIEF

PAGE IN
ARGUMENT

S U B J E C T

2

18284

Fabrics and finishes suitable for the tailoring and general cutting-up trade and furniture covering fabrics and draperies are manufactured by Montreal Cottons Ltd.

FINANCIAL and OPERATING

CAPITAL STRUCTURE

<u>PAGE IN BRIEF</u>	<u>PAGE IN ARGUMENT</u>	<u>S U B J E C T</u>
1	18283	Montreal Cottons Ltd. was incorporated in 1911 to take over the business of the 'Montreal Cotton Co.' which had commenced operations in 1874
2	18283	An examination of the last 15-year period seems sufficient to enable the information requested in the Order in Council to be obtained
2	18283	The capital of the present Company consists of - 5% bonds due 1943 \$ 403,440.93 7% Cumulative - Preferred Stock, 30,000 shares 3,000,000.00 Common Stock, 30,000 " 3,000,000.00
7	18289	Dominion Textile Co. besides being the selling agent also owns 54.8% of the issued Common Shares of the Montreal Cottons Co.
9	18294	Reduction of outstanding bonds from \$1,000,000.00 to \$403,440.93 in 1935 is the only change which has taken place since 1911
10	18295	It is claimed that the statement 'Capitalization & Operating Results' is misleading and inaccurate in 3 respects
11	18295	In the statement 'Adjusted Amount for Capital' the capital of the Company is shown to be \$2,884,500.00
11	18295	This amount is arrived at by deducting from the issued capital stock such portion which represents surplus existing at and prior to 1911 and which was re-invested in the Company then
11	18295	It is claimed the Commission Auditor admitted that the retention of profits increased the capital and was represented by assets (Evid. p. 12900)
11	18295	If profits prior to 1911 had been distributed to shareholders and the increased assets acquired by a new issue of stock, such new issued would have been shown in the capital and not deducted (Evid. 12899)

- | | | |
|----|-------|---|
| 11 | 18295 | The Commission Auditor stated that profits shown were earned upon a capital of \$6,000,000.00 and not upon a capital of \$2,884,500.00 (Evid. p. 12902) |
| 11 | 18295 | Commission Auditor stated that statement showing the make-up of the capital was used only to disclose the set-up of the capital and for no other purpose (Evid. 12902) |
| 14 | 18299 | 'Comparative Balance Sheet' shows full value in assets behind all the issued share capital of the Company |
| 14 | 18299 | It is claimed that a higher value for fixed assets being shown in the preceding statement than in this 'Capitalization and Operating Results' as to 'Adjusted Amount for Capital' is without basis and inconsistent |

FINANCIAL and OPERATING

APPRAISALS and VALUATIONS

<u>PAGE IN</u> <u>BRIEF</u>	<u>PAGE IN</u> <u>ARGUMENT</u>	<u>S</u> <u>U</u> <u>B</u> <u>J</u> <u>E</u> <u>C</u> <u>T</u>
3	18294	Plants machinery and equipment in the 1935 balance sheet were valued at \$7,957,015.51
5	18287	The dispute over the value of the immoveables of the Company was settled before an appeal of the Court's decision was heard
6	18298	The insurance appraisal value as at 29th June 1936 was \$2,413,356.00
14	18297	As to 'Fixed Assets and Depreciation' no good ground has been shown for taking an insurance appraisal as a basis of value for fixed assets
14	18298	It is submitted that natural increment in values since 1911 makes the depreciation written off during the period inadequate
14	18299	'Comparative Balance Sheet' shows full value in assets behind all the issued share capital of the Company
14	18296	It is claimed that a higher value for fixed assets being shown in the preceding statement than in this, 'Capitalization and Operating Results' as to 'Adjusted Amount for Capital' is without basis and inconsistent

FINANCIAL and OPERATING

PLANS

PAGE IN FILE	PAGE IN DOCUMENT		H	U	B	J	I	C	T
4	18286	Taxes paid by the Company are as follows - Municipal - Jan 1/35 to Dec. 31/35 - \$48,644.64 School - July 1/33 to July 1/36 - \$61,689.83							
5	18287	The final dispute between the Company and the Municipality as to taxes was settled by By-law No. 350 approved by the voters and ratified by 25-26, Geo.V, 122.							
5	18287	The dispute over the value of immovables of the Company was settled before an appeal of the Court's decision was heard							
6	18288	The Company ceded unto the Town certain properties which had a value of \$58,750.00							
6	18288	Previous agreements between the Town and the Company as to taxes had existed in 1920, 1911, 1890 and 1882							
	18288	The Company in the earlier days received 2 bonuses from the Town and the amount of commutated taxes is around \$900,000 since the inception of the Company							
12	18296	The figures for Net Revenue for 49 years (1877-1925) are shown wit out deducting Income Tax							
	18299	For purposes of Income Tax Department, Company has to take depreciation on cost							

THREAT AND CHALLENGE

PROFITS, TAX DEDUCTIONS & LOSSES

PAGE IN BRIEF	PAGE IN ARGUMENT	S	U	B	J	E	C	T
8	18291	As shown in Ex. 952, the Company's operations over the past 15 years have not been profitable						
10	18294	It is claimed that the statement of 'Profit and Loss and Surplus Summary, 1926-1935' are made in a rather unusual manner						
11	18295	It is claimed the Commission Auditor admitted that the retention of profits increased the capital and was represented by assets (Evid. p. 12900)						
11	18295	If profits prior to 1911 had been distributed to shareholders and the increased assets acquired by a new issue of stock, such new issue would have been shown in the capital and not deducted (E.12893)						
11	18295	The Commission Auditor stated that profits shown were earned upon a capital of \$6,000,000 and not upon a capital of \$2,834,500.00 (Evid. p.12902)						
12	18296	The figures for Net Revenue for 49 years (1877-1925) are shown without deducting Income Tax						
12	18296	Figures for 10 years (1926-1935) are shown without deducting Income Taxes, Bond Interest and Sinking Fund Reserve, net revenues being shown as \$3,067,221.39 (Evid. 12903)						
12	18296	Commission Auditor stated that he would confine earnings of the Company to the first item of Net Revenue for 10 years to 1935 from operations, \$716,840.46 (Evid. 12906)						
12	18296	Commission Auditor admitted that the item 'Transfer from extraordinary profits .. \$1,446,392.99' represents the proceeds of a 'sale' of a capital asset having no connection with the manufacture of textiles						
	18297	The 'sale' referred is in reality the lease of the water power for 75 years negotiated by the Company						

Profits, Earnings & Loss - 2

18324

Counsel for Montreal Cottons contends that there has been no evidence that there has been any improper charging of expenditures to revenue account which should have been charged to capital account

FINANCIAL and OPERATING

DEPRECIATION

<u>PAGE IN</u> <u>REPORT</u>	<u>PAGE IN</u> <u>EXHIBIT</u>	<u>S</u> <u>U</u> <u>B</u> <u>J</u> <u>E</u> <u>C</u> <u>T</u>
8	18292	No depreciation was provided for during the years 1928, 1929, 1930, 1931 and 1932
14	18297	As to 'Fixed assets and Depreciation' no good ground has been shown for taking an insurance appraisal as a basis of value of fixed assets
14	18298	It is submitted that natural increment in values since 1911 makes the depreciation written off during the period inadequate
	18299	The trouble with taking depreciation on cost is that it naturally cannot follow changing price levels
	18299	For purposes of Income Tax Department, Company has to take depreciation on cost

FINANCIAL and OPERATING

RESERVES

<u>PAGE IN</u> <u>BRIEF</u>	<u>PAGE IN</u> <u>ARGUMENT</u>	<u>S</u> <u>U</u> <u>B</u> <u>J</u> <u>E</u> <u>C</u> <u>T</u>
8	18293	Surplus Account dropped from \$886,619.42 in 1926 to \$21,833.40 in 1935

FINANCIAL AND OPERATING

DIVIDENDS

PAGE IN
BRIEF

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ARGUMENT

S U B J E C T

8	18293	Common stock dividends discontinued in March 1933 were resumed on March 15, 1937
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FIGURE 1 and CAPTION

REPAIRS, EQUIPMENT, SUPPLIES, ETC.

PAGE IN EXHIBIT	PAGE IN DOCUMENT	S	U	D	J	E	C	T
13	18297	There is nothing in the evidence to suggest that the figures for depreciation and repairs & equipment for 10 years prior to 1935 have any relevance to the foregoing statement						
13	18297	Montreal Cotton Counsel claims that the Statement in itself is misleading						
13	18297	It is contended that the other statement 'Repairs and Mill Equipment and Supplies Charged to Operations' does not show that any repairs were charged to operations rather than capital						
	18321-2	Statement No. I (filed) shows the charges to Repairs Account, Capital Account, Supplies and Equipment (Ex. 1370)						

LABOUR CONDITIONS

<u>PAGE IN</u> <u>BRIEF</u>	<u>PAGE IN</u> <u>ARGUMENT</u>	<u>E</u> <u>U</u> <u>D</u> <u>J</u> <u>E</u> <u>C</u> <u>T</u>
17	18302	Complaints of the witnesses may be summarized as follows: 1. An increase in the number of machines which employees were obliged to tend 2. A system of fines for bad work 3. Responsibility for defective work which is due to a fault in the machine 4. Moisture on the walls of the weave room and that the temperature became very high
	18303	5. Workers have to wait outside the mill for their pay at the gate under certain circumstances
18	18307	As to the first complaint, it was stated by the General Manager, Mr. Aird, that starting in 1931 there was an increase in the number of machines or spindles each operator had to tend (Evid. p. 5475)
18	18307	The result was to leave skilled work to be done by skilled operators and having less skilled workers do other classes of work
18	18307	Miss Hebert, A weaver, finds her work easier with 44 looms than when she had 12 under the former system (Evi. 5582 et seq.)
19	18308	Miss Ladue gave evidence to the same conclusion that the work was less fatiguing under the new system (Evid. 5594)
19	18308	Evidence showing that the work was less arduous under the new system was given by Jourdain and Pare, loom fixers (Evi. p. 5600 et seq)
19	18308	The system of fines was in effect in 1932 but was abolished in the fall of 1934

- 19 18308 If, however, after a warning a weaver keeps on producing bad work, he is laid off for a week, although the occurrence is rare (Evid. p. 5483)
- 19 18309 Mr. Aird testified that when an employee found defective work caused by the machine he could call the second hand to examine the loom
- 19 18309 If the defect is in reality due to the machine, the second hand autographs the piece of cloth and when it reaches the inspection room the weaver is not held responsible for the defects
- 20 18309 In the case where the machinery keeps running after the departure of the operative, the weaver, upon his return and finding the defect, may have the cloth signed by the second hand and the weaver is not held responsible
- 20 18310 Witness Pilon stated that the room temperature averaged between 80 and 90 and that the humidity was very great (Evid. p. 5359)
- 20 18310 Official records show that the highest temperature for 3 months was as follows -
- | | |
|----------|----|
| January | 88 |
| February | 80 |
| March | 80 |
- 21 18310 In none of the 3 months did it go as high as 75% relative humidity (Evi. p. 5480-1)
- 21 18310 Drinking fountains and taps are installed in all departments and it is not necessary to drink from end of hose as stated by one witness Plourde (Evid. p. 5094)
- 22 18311 Other complaint of Plourde as to faulty sanitary arrangements applied to Gault Mill only as new sanitary installations were commenced in 1931 and finished in 1932
- 22 18311 Joseph Leroux claimed he was discharged as a result of his election as President of the Catholic Union in 1934
- 22 18311 The work given to Leroux was of a temporary nature and General Manager testified that Leroux was discharged the same as the other temporary workers (Evid. p. 5484-5)

- 23 18311 Emile Pilon complained of being laid off for 2 weeks and then reinstated after a complaint to the inspector (1935)
- 23 18312 The General Manager stated that at that time, owing to a surplus number of loom fixers, they were alternating 2 weeks on and 2 weeks off
- 23 18312 Statement made by Pilon that Company was warned of impending visit of inspector and that the mill was cleaned for that reason was denied in a letter from Inspector Robert to General Manager (Evi. p. 5489)
- 23 18312 The witness Flourde further charged that for 3 hours cleaning done on Saturday afternoons, employees were paid only 25¢
- 24 18312 This was said by Mr. James M. Lowe to apply to Shriner Calendar machines in the converting division and it is part of the workers job to clean their machines once a week
- 24 18312 Mr. J.M. Meury, superintendent of the weave room, stated that no cleaning was done without pay and that this work was included in establishing their piece work rate (Evid. p. 3532 et seq.)
- 18313 Cleaning being considered as part of the operation is taken as an element in the calculation of the wage rate
- 18314 Mr. Gordon claims that this tends to increase the rate as the production will be that of 53 hours while the rate is calculated on a 55 hour basis
- 24 18315 Meury also confirms the General Manager's statement that witness Lerous' dismissal had nothing to do in connection with the Union
- 25 18315 Witness Treffe Leduc's dismissal was due not to his activities with the Union, but to his persistence of talking to other employees during working hours, although he had been warned several times to cease such a practice
- 18316 Besides going through the mill and talking to employees, the witness also had been found asleep at his work

- 25 18316 Montreal Cottons claim that the charges made by the witnesses Pilon, Plourde, Laroux and Ledus were unfounded and some of them made in bad faith
- 18317 Mr. Beaurgard contends that this testimony was not made in bad faith as unless a worker is told flatly he is discharged he will impute a notice to the employer
- 18318 The impression received by Counsel for the Co. that the witnesses were there to make any complaint they could think of against the Company is not enough to support a statement of bad faith, states Mr. Beaurgard
- 25-6 18319 Rev. Downs, chaplain and Gaston Saint-Onge, advocate of the Union, denied the account of the meeting held at Montreal on the 30th May 1933 between the Minister of Labour, Mr. Gordon and Mr. Aird
- 18318 Ledus and Laroux testified that they were very badly treated at the meeting and Rev. Downs and Mr. Saint-Onge asked to testify to correct the statements made by these witnesses
- 18318 Mr. Beaurgard and the Commissioner state that the complaint made by the men were against Rev. Downs and Mr. Saint-Onge much more than against the Company
- 18319 Mr. Arcand, Minister of labour and chairman of the meeting probably is the one that let the men out in the corridor while the discussion went on, this being the basis of the men's complaint
- 26 18319 Achille Henley gave evidence as a member of the joint Industrial Board Shop Committee
- 26 18319 The first request made by the Shop Committee was a change in the loom fixers on the 5th floor of the Louise Mill and was granted by the Company
- 26 18319 The second request that pay-day be changed from Monday to Friday was also granted by the Company

Labour Conditions - 5

- 26 18320 No other complaints were made to the Board and witness Huxley, as a weaver, declared himself satisfied with his work, if full-time employment could be provided
- 27 18320 In December 1935 the employees' wage classification stood as follows -
- | | |
|--------------------------|--------|
| \$6.99 and less per week | 4.00% |
| \$7.00 to \$9.99 | 21.85% |
| \$10.00 to \$11.99 | 20.76% |
| \$12.00 to \$14.99 | 23.53% |
| \$15 and over | 29.84% |
- of which 67.65% were males and 32.35% were females
- 27 18320 Employment is as follows -
- | | Total | Males | Females |
|------|-------|-------|---------|
| 1929 | 2,383 | 1,516 | 867 |
| 1935 | 2,429 | 1,657 | 772 |
- 27 18320 Evidence shows the working conditions are good claims Montreal Cottons Ltd.
- 27 18320 Special rooms have been constructed in which workers may change and leave their clothes
- 28 18321 Although there has been short time employment at times, the last years have been poor from a business point of view and it is in the interest of workers and of the Company to carry on full time operations
- 3 18285 The number of employees and wages paid thereto are as follows -
- | | 1936 | NO | AMOUNT |
|-------------------------|------|----|--------------|
| Mill workers | 2446 | | \$706,751.00 |
| Mechanical | 140 | | 68,556.00 |
| Mill Super. & Clerical | 35 | | 34,163.00 |
| Head Office & Directors | 10 | | 14,300.00 |
- 4 18285 Employment given to mill workers and mechanical staff only has been -
- | | NO. | AMOUNT |
|------|-------|----------------|
| 1926 | 2,647 | \$1,842,311.00 |
| 1930 | 2,200 | \$1,303,248.00 |
| 1934 | 2,337 | \$1,272,338.00 |

MACHINERY

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PLIFF

PAGE IN
ARGUMENT

S O U R C E S

3

18384

In 1935, there were in operation, 192,944
spindles and 3,524 looms

MISCELLANEOUS

<u>PAGE IN</u> <u>BRIEF</u>	<u>PAGE IN</u> <u>ARGUMENT</u>	<u>S</u> <u>U</u> <u>B</u> <u>J</u> <u>E</u> <u>C</u> <u>T</u>
8	18290	Following a change in the Management of this Company in 1931, Mr. Aird was appointed General Manager
9	18293	Montreal Cottons Co. contends that the sale of its water power rights to the Beauharnois Power for 8,000 horse power of free electricity and a substantial cash payment may be said to have insured the continuous operation of the Company
12	18296	Commission Auditor admitted that the item 'Transfer from extraordinary profits ... \$1,446,399.39' represents the proceeds of a 'sale' of a capital asset having no connection with the manufacture of textiles
	18297	The 'sale' referred is in reality the lease of the water power for 75 years negotiated by the Company
15	18297	There is nothing in the evidence to suggest that the figures for depreciation and repairs and equipment for 10 years prior to 1935 have any relevance to the foregoing statement
15	18300	The Company provides non-contributory pensions, the whole cost being borne by the Company
15	18300	On 1935, \$300,000 were paid to 88 persons on the pensions' list (Evid. p. 4843)
15	18300	Qualification for a retiring allowance is twenty years of service and the rate is based upon earnings for the last 10 years prior to retirement (Evid. p. 4891)
15	18300	Medical service is contributory but non-profit making for the company
15	18300	Medical service does not include accidents covered under the Workmen's Compensation Act but covers free attention for any accidents in and out mill and free prescriptions

- 16 18301 The cost of keeping a dispensary and first aid room attended by three doctors and a nurse is \$5,000 which is paid by the workers with no profit for the Company
- 16 18301 The Company rents 200 cottages, rentals of which amounted to \$31,809.32 in 1935 - They were rented as follows:
To Superintendents - Av. Monthly Rental - \$17.60 - 42
To Workers - 158 - Av. Monthly Rental - \$12.10
- 18301 Company also owns a farm and provides its own employees with milk and cream
- 17 18303 All of the 31 employees or exemployees to whom the question was put knew their rate of pay
- 18321 From a Statement prepared by the Commission Auditor it may be inferred that the Company has improperly charged to operations things which should have been charged to capital
- 18322 Where a greater amount is spent on buildings, the percentage of labour is higher, because there is more labour in building than there is in machinery
- 18323 Statement No. 2 shows percentage of wages paid to the Mechanical Department charged to Capital A/c amount charged to Repairs and the amount which represented wages for the ordinary duties of the Mechanical Department (Ex. 1370)
- 18324 Counsel for Montreal Cottons contends that there has been no evidence that there has been any improper charging of expenditures to revenue A/c which should have been charged to Capital Account

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7	18289	Dominion Textile Co. besides being the selling agent also owns 34.8% of the issued Common Shares of Montreal Cottons Ltd.						
7	18289	Under an agreement dated 30th September 1934 Dominion Textile Co. is appointed selling agent at a commission of 2% on sales of the product of the Company and of 1% discount on purchases made by it from Montreal Cottons Ltd.						

W A G E S

PAGE IN REPORT	PAGE IN EXHIBIT	S	U	B	J	E	C	T
3	18285	The number of employees and wages paid thereto are as follows -						
			1936	No.	Amount			
		Mill Workers		2,446	\$736,731.00			
		Mechanical		140	68,556.00			
		Mill Super. & Clerical		33	34,163.00			
		Head Off. & Directors		10	14,300.00			
4	18285	Employment given to mill workers and mechanical staff only has been -						
				No.	Amount			
			1926	2,647	\$1,842,311.00			
			1930	2,200	\$1,305,248.00			
			1934	2,337	\$1,272,338.00			
17	18302	All of the 31 employees or ex-employees to whom the question was put knew their rate of pay						
	18303	Workers have to wait outside for their pay at the gate of the mill and this caused one of the main complaints of employees						
	18305	The crowding and waiting at the Mill gate for pay on Friday is due to the fact that when the mill was running a short week some 2500 workers would be on hand for pay						
	18306	Mr. Gordon can offer no remedy to the situation except to spread the workers through the different departments of the mill or if they were running regular short time they would endeavour to pay them on Thursday instead of Friday						
23	18312	The witness Flourde also charged that for 3 hours cleaning done on Saturday afternoons employees were paid only 25¢						
24	18312	J. H. Meury, superintendent of the weave room, states that no cleaning was done without pay, and that this work was included in establishing their piece work wage rate (Ex. 3552)						
	18313	Cleanings being considered as part of the operation is taken as an element in the calculation of the wage rate						

18314 Mr. Gordon claims that this tends to increase the rate of wages as the production will be that of 53 hours while the rate is calculated on a 55-hour basis

27 18320 In December 1935, the employees' wage classification stood as follows -

\$6.99 and less	4.00%
\$7.00 to \$9.99	21.85%
\$10.00 to \$11.99	20.76%
\$12.00 to \$14.99	33.55%
\$15.00 and over	29.84%

27 18320 The rate and basis of pay is made known to all the employees

18325 Statement No. 2 shows percentage of wages paid to the Mechanical department charged to capital account, amount charged to Repairs and amount which represented wages for the ordinary duties of the Mechanical Department (Ex. 1370)

1	18553	Mr. Campbell quotes from the Order in Council (Ex. 1) paragraph stating the mandate which the Government entrusted upon the Commissioner
	18554	Paragraph appointing Mr. Justice Turgeon as Commissioner is also read
	18554-5	Mr. Campbell quotes Sections 2 and 3 of Chapter 99, Inquiries Act, R.S.C.
	18555	Section 4 of the Act gives power to Commissioners to summon before them any witnesses and require them to give evidence
	18555	Section 5 gives power to subpoena witnesses
	18555	Mr. Campbell submits that under the Act the Commission acts as a fact-finding body, simply
	18556	Mr. Campbell contends that the position of the Commissioner is that of a layman conducting this inquiry
	18556	He also claims that the Commissioner is directed to make a report but not expected to express legal opinions or pronounce himself upon questions of law
	18557	Mr. Campbell claims that Dr. Tory on the Coal inquiry let questions of law go into the record under reserve of objections
	18557	The Commissioner states that it is precisely on account of the legal aspects of the case that Counsel are considered a necessary adjunct to the Commission
	18558	Mr. Campbell suggests that the Commissioner should refrain from giving any judgments which may injuriously affect Canadian Cottons Ltd.
	18558	Mr. Campbell further requires that the Commissioner refrain from expressing an opinion on law questions which may be a matter of controversy or discussion
3	18559	It is claimed that the Commission should not grasp at doubtful jurisdiction

3 18559 It is submitted that whether Canadian Cottons Ltd. has sufficiently complied with the Provisions of the Business Profits War Tax Act or the Income War Tax Act by the returns filed from 1917 on is a question of law

33 18560 Until it is found liable by the Court appointed by Statute for considering all matters arising under the 2 Acts, the Company should not be found liable by the Commission

18560 Mr. Campbell informs the Commission that an Appeal has been entered against the claims made against Canadian Cottons by the Commissioner of Income Tax following the report made to the Department by the Commissioner

4 18561 Mr. Campbell is of the opinion that the Commission has done its duty by disclosing the facts to the Income Tax Department

18564 The Commissioner points out that he must inquire into the profits of the company not only the profits shown by it, but the real ones as well

33 18567 Mr. Campbell does not contest the Commission's right to inquire into the profits of the Company

4 18568 The system of Canadian Cottons Ltd. in a measure antedated all fiscal legislation

18568 Mr. Campbell contends that the inventories have always been kept on a sane and safe basis

5 18569-70 18861 As regards manufactured goods (finished or unfinished off looms) the percentage take off were as follows

1910	18.75% i.e. 10-5-5
1913-1915	20%
1916	25%

18571 Though Mr. Campbell claims that these particular percentages are unimportant, the Commissioner states that they are important, as they are relevant to the question of determining real profits of the Company which the shareholders are entitled to know

18572 Commissioner claims that it is not lawful to conceal from the shareholders of the Company the real profits and Mr. McNair states that Mr. Dawson said that no disclosures were made to the shareholders in order to avoid speculation on the stock

- 18573 It is not illegal or improper claims, Mr. Campbell for a taxpayer to make sure that his system is so adjusted that he is entitled to the benefit of any exemptions which the law gives him
- 18573-4 The Commission claims that the case of a corporation cannot be assimilated to that of an individual because a corporation is a trustee who has a duty to perform of strict disclosure to the people for whom it was trustee
- 18574 Mr. Campbell is of the opinion that for the purpose of his point percentages are immaterial
- 18575 Canadian Cottons counsel contends that it was the Company's duty to the shareholders to take advantage of any allowances which the law and regulations permitted them to take
- 18576 Mr. Campbell gives quotations from the Law Times
18577-8 Reports, Volume 51, pp. 467-472-473
- 18578 The Commissioner points out that the onus is on the taxing authority to show that the tax payable comes within the Act of Parliament imposing it
- 18579 whether a taxpayer is justified in so arranging his affairs as to make the tax less than it would otherwise have been is up to Exchequer Court to find out and also what the Commissioner, under the Order in Council will have to find out after arriving at what the real profits of the Company are
- 18579 Mr. Campbell claims that as regards the item of inventory the valuation of inventory as carried on the books and records of the Company is always a mere estimate and can be nothing else
- 18580 The Commissioner suggests that Mr. Campbell's contention is that the profits from year to year as reported to the Commission should be accepted as the real profits
- 18581 The more the inventories are discounted the greater will be the profits in the following year
- 18581 The inventory is taken in at the beginning of the accounting period at the amount at which it is made up and valued

	18582		The Commissioner states that the difference shown is that between cost of production and the selling price while Mr. Campbell claims it is that between the figure at which the goods are carried in the inventory and the figure for which these goods are sold
	18582		Mr. Campbell submits that for a period of time it makes no difference to the taxing authorities because the Company takes into its record the difference between the depreciated inventory and the selling price
	18583	18699	It is submitted that it is necessarily a matter of estimate as what is the proper figure at which the inventory is entered in the accounts
	18586		The estimate is made from the list selling-price - They start from an arbitrary point and make an arbitrary deduction
	18587		Some goods have to be carried on over long periods which are ultimately disposed of at a loss although there is an average turnover which is about twice a year
27	18590	18686	List of goods taken into stock at listed selling price March 31, 1936 and either still on hand or sold wholly or in part at a loss
40	18609	18689	
		18691	
		18692	
	18597		If there is an asset in inventory which was built up out of profits from year to year it must be considered as part of the Company's profits
24	18599		Basis on which Canadian Cottons inventories are made up was to take the list selling price less arbitrary discounts
	18615		
	18617		
	18630		
	18601		Real profits are when goods are converted into cash, the profit being the realized difference between the depreciated inventory value and the actual sale price
	18616		
	18620		
	18662		
	18604		Decision of the House of Lords under the British Income Tax Act where the legal basis of an estimate was discussed in the case of Sun Insurance Co. vs Clark
	18613		

27	18609	18693	List of goods shown at page 40 shows the necessity of a discount from the list selling price to make an inventory that would be in any way accurate or fair or reliable
	18610	18694	Discounts are taken on the list selling price
	18610		Comment of Lord Atkinson in the case of Gresham Assurance Society vs Styles
	18611		Basis of fiscal legislation is that it is only when the profit is received in the till that it is subject to taxation
	18614		
29	18613		Section 3 of the Income War Tax Act contains no provision as to the way in which a Company's profits are to be determined
8	18614		Campbell submits that until the profit is actually received and in the till it should not be called a profit at all because up to that point it is a mere estimate
	18619		
	18625		
	18622		
	18616		General trend of income tax has been upward from 6% in 1919 to 15% 4m at the present time
8	18617		Campbell suggests it is a misnomer to call discount off inventory either a reserve or still less a secret reserve as there is nothing secret about it
	18620		
	18625		
	18618		In 1924 raw cotton was carried in inventory at 15¢ per pound, whereas Brown says it should have been 28¢
	18621		In 1923 raw cotton was taken into inventory at 10¢ per pound but Brown's figure is 28¢
	18626		Campbell explains how profits are arrived at
	18630		
	18627		Campbell says their system is consistent in the sense that they always start from their list selling price and deduct and there may have been changing conditions which justify increasing percentages of discount
	18629		
37	18631		Campbell states their system of inventory valuation was fair to their shareholders, fair to their creditors and fair to the taxing authorities

18631
18635

Campbell says that the methods used in keeping inventories was a right and proper method

42

18631

Record of dividends paid from 1893 to 1936

18633

Campbell submits they were able to maintain preferred dividend payments without interruption from 1910 because they did not violently write up profits one year and violently write them down the next

COST OF PRODUCTION

PAGE IN BRUNEAU'S BRIEF	PAGE IN McRUER'S BRIEF	PAGE IN McRUER'S ARGUMENT	McRUER'S REBUTTAL
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S U B J E C T

	18500		The costing system was established by the Ralph E. Loper Company, of Fall River, U.S.A.
	18500		They based their figures on the normal full production of the previous year
417	18500		Mr. Bruneau expresses surprise that Mr. Hooper could not find a cost system in Canadian Cottons Ltd.
248	18501		Statement is made there was no possibility of doing anything with Canadian Cottons and Mr. McRuier denies he conceded the company was not in any idifferent position from any of the others
	18502		Mr. McRuier states that Mr. Brown who placed himself fully at the disposal of the Commission, was not familiar at all with the costing system of the Company
	18503		Table prepared by Mr. Brown shows that the difference standard costs and actual costs is that actual costs for the fiscal year ended March 31, 1935 were 2.7 higher than the standard costs
	18503		Mr. McRuier deems it an extraordinary procedure to produce a table showing actual costs while Mr. Hooper and Mr. Howson gave evidence that Canadian Cottons Ltd could not show them their actual costs
	18504		Contrary to Mr. Bruneau's claim, Mr. McRuier states that Mr. Howson was cross-examined by Mr. Kellock on that point when in several occasions he appeared for Canadian Cottons
185	18505		Mr. Hooper stated at page 12,259 in presence of Counsel that he had been unable to find any cost system in Canadian Cottons Ltd.
	18505		Mr. McRuier quotes the cross-examination of Mr. Hooper by Mr. Kellock (pp. 12237-38)
	18506		Mr. Bruneau claims that this statement of absence of costing system refers to one cloth only while the Commissioner states that there was lost of time to put in evidence on these points, the question of costs being one of the enumerated things to be inquired into
	18507		

18507

Mr. Howson (Ev. p. 12924) also stated that with respect to the costs of Canadian Cottons "you cannot even make a start"

18508

Mr. McRuer states that it was in view of a statement of costs that a check up was made to see whether they were working near or close and there is a difference of 2.7%

FINANCIAL & STATISTICS

PAGE IN BRUNEAU'S REF	PAGE IN McKUE'S REF	PAGE IN McKUE'S ARGUMENT	McKUE'S REBUTTAL	SUBJECT
184	18352			\$240,000 of bonds were returned to the Company by the purchaser when the current assets of the purchased companies did not reach the values placed upon them in an agreement
	18352			It was the easiest method to return bonds, as if shares had been returned for cancellation without causing a reduction in the capital
	18353			Mr. McKue states that the point is that the purchase price of the former shares seemed to be the same as the amount of the bond issue
	18353			Mr. Brunneau states that the fact that shares could not go through the process of reconstruction of capital, it was sufficient reason for conducting the transaction with bonds rather than shares
184	18353	18718		There is no evidence of any common stock whatever having gone to the promoters
185	18354			Mr. McKue's doubts "whether or not anyone in the employ of the Company has this knowledge is unfounded" Mr. Brunneau, stating that no one can be reproached for not having their records available for half a century back
185	18354			Minute Book of Canada Cotton Mfg. Co. Ltd. shows that bonus stock was issued for \$250,000 in respect to the acquisition of the Co. and Mr. McKue assumes that this was done in respect to the 7 other companies
	18354	18719		The appraisal figure of the assets of this Company is \$1,050,000 but Mr. Howson finds that the shareholders got only \$800,000
	18355			This applies only to one of the transactions and it could be possible for some of the other companies to have been acquired for a greater figure than the appraisal value

18355		Mr. Bruneau contends that figures quoted by Mr. Howson need substantial correction	
18355	18719	Pages 226 and 227 of the Minute Book of Canada Cotton Mfg Co. Ltd. show that the shareholders sold all the assets for :-	
		Cash	\$ 63,000
		Short term notes	100,000
		Canadian Coloured Cottons Ltd	
		6% bonds of the new Co. all	
		bearing interest from March 1,	
		1892	400,000
			<u>\$565,000</u>
		The purchasers assumed the bonds of the selling Company for	300,000
		with interest at 6%, 5 months interest due on March 1, 1892	7,500
			<u>\$307,500</u>
18356		The Minutes further state that the purchasers assumed all debts owing by the vendors and these amounted to \$474,808.24 as shown on the balance sheet of October 31, 1891	
18356		Besides taking over these assets and the Profit and Loss Account, approximately \$1,350,000 was paid for the assets of the Mill	
18357		Mr. Bruneau submits that there has been no watering of stock and that one got any stock without adequate consideration	
186	18357	The Company was incorporated in 1892 and what occurred in 1910 is an increase of capital, a change of name and an internal distribution of stock	
186	18357	No stock was issued without consideration, the transaction was equivalent to the issue of a stock dividend against the surplus of the Company	
18358		In 1910 the Company had capital	
		stock	\$2,700,000
		Surplus of undistributed profits	1,673,387
		Total Capital Surplus	4,373,387
18358		Company got new capital - cash	\$1,000,000
		Assets of Mount Royal Spinning Co.-	
		Preferred Shares	550,000
		Common shares	715,500
			<u>\$1,265,500</u>

18358 Mount Royal Spinning Co. was sold in 1920 for \$2,372,000

18359 After reorganization the Company's capital stood as follows:

Preferred Stock	\$3,875,000
Common Stock	2,715,500
Surplus	348,387.
	<hr/>
	\$6,638,887

18359 The \$2,000,000 of common stock was given by the old common shareholders out of their stock and surplus (Ev. Mr. Dawson p.7209) and distributed among the shareholders who subscribed new capital to the Company

18359 \$1,325,000 out of \$2,000,000 previously available for the shareholders' dividends, was made available by capitalizing the Company's surplus to that extent

18360 When a company has asked its shareholders to subscribe to more capital, the shares are fully paid for in real money, whether the shareholders pay for the certificates they get with their private funds or with the savings which the Company has earned for them

18360 The only difference there is when the shareholders had \$1,000,000 stock and \$1,000,000 savings and now that they have \$2,000,000 stock but no savings is that they are now definitely bound to leave the surplus invested in the Company

18361 Such transactions are authorized under Section 83, paragraph 3, of the Dominion Companies Act, by which Companies are encouraged to secure money in this way if they can get their shareholders to convert their profit into the Company's capital

18361 To avoid any impression that there was anything handed out to these shareholders for nothing, Mr. Brunson has used the words "stock dividend" instead of "bonus dividend"

18361 In 1910, \$1,325,000 of stock was issued against the surplus which was reduced to that extent the amount being turned over to the Company's capital and the stock fully paid

18362 Instead of acting in this way, the Company might have called upon the shareholders to put up money for the capital of the Company

18362 Mr. McKuer contends that this surplus must be taken into consideration in view of the profit which the Company earned in the past

185-6 18362 The Surplus was not consumers' money as in 19 years the Company distributed as dividends an average of 2 $\frac{1}{2}$ % on the stock, which Mr. Bruneau claims was fully paid for

18363 It was money to which the shareholders were fully entitled and the surplus distributed among them was the equivalent of another 2 $\frac{1}{2}$ %

18363 The balance, \$675,000 was obtained as follows:
Shareholders turned over to the
Syndicate in charge of reorganization \$2,700,000
paid for common stock for 2,025,000
preferred stock on a basis of 3
preferred for 4 common - Thus \$ 675,000
of fully paid stock was available for redistribution

18364 Mr. Dawson's evidence shows that all shareholders were given equal opportunity to subscribe for new stock

18364 The old shareholders who did not subscribe were entitled to get 6% on three quarters of their former holdings

18364 The Syndicate only paid its \$1,000,000 for Preferred Stock and received new stock to the extent that this was not subscribed by the shareholders themselves

18365 The 1910 change was purely internal and this was the only alteration made in the capital structure of the Company

18370 Each shareholder was entitled to subscribe 37% of the shares

18370-1 Senator Beique who had 300 shares (p. 182) subscribed to 111 - so that he now had 336 shares; 225 preferred (3 for 4) and his subscription of 37% or 300 for 111

18371 On the basis of that stock dividend he would have been entitled to get 147 shares fully paid up if the Company had simply issued a stock dividend for that amount

188	18371	Original investment (1910) is said to be \$3,930,000 arrived at by deducting from the capital stock of the Company
		\$1,325,000 - bonus stock
		250,000 - inflation of assets taken over from Canadian Cotton Mfg. Co.
		871,000 - on account of losses made by the Company on disposal of the mills it took over in 1892
	18372	The \$871,000 was loss which Mr. Howson estimated was made on 3 mills set up on the book of the Company at an appraisal value of -
		Merritton Mill \$400,000
		Lybster Mill \$200,000
		Dundas Mill \$300,000
	18372	Minutes of the Company show that no loss was involved in closing the Merritton Mill in 1906 -
		Dundas Mill was bought for \$50,000 and \$89,500 spent on it
	18373	Merritton machinery was transferred to Cornwall and the Merritton building sold for \$60,000
188	18374	Mr. Bruneau contends that because no capital was returned to the shareholders on these transactions, that was no reason for the shareholders to cease to earn money
	18375	The situation in 1910 showed that all losses had been made up for and a surplus shown, and Mr. Bruneau claims that the two items, \$250,000 and \$871,000 ought not to have been deducted from the Company's capital
188	18375A	Mr. McKier claims a profit of \$24,000,000 on a capitalization of \$3,930,000 since 1892 or an annual average of 14%
	18375A	Mr. Bruneau claims that profits on money invested in the business over 45 years have averaged 4.95% annually
	18375A	The difference in average - 14% and 4.95% - arises from the fact that Mr. Brown included bonds as part of the capital invested in the Company
		Tables showing Capital Employed and Annual Earnings

18376 Mr. Brown included the inventory reserve at the rate figured by the Government but this does not mean that they admit the principle that they have really been earned

18377 For the purposes of the inquiry the relevant figure was the return earned by the total money invested in the industry

18377 Bonds were included as representing capital invested in the industry at low rate of exchange for a high security and because there would be no reason to leave out bonds and leave in preferred stock

18 188 18377-8 Mr. McKuer has not taken into consideration the accumulated surplus which has been used in the business, invested in machinery, equipment, buildings and materials, while Mr. Bowson refers to it in Ex. 917

188 188 18378 Mr. McKuer states he is dealing with original investment and not with capital

18378 Mr. Bruneau states that instead of distributing all its surplus to the shareholders every year, the Company uses it for operations and is not, therefore, in need of asking for subscriptions

18378 With part of the surplus being part of the Company's capital, the remainder of the accumulated surplus must be taken into account

18379 Accumulated surplus, was considered by the Business Profits War Tax Act as part of a Company's Capital on which it was allowed a 7% exemption before being assessed for profits

18380-1 Mr. McKuer denies that he ever contended that accumulated surpluses should not be taken into account and that any profits over 10% belonged to the consumers as Mr. Bruneau understood it

18381 Mr. McKuer selected 10% merely as an illustration of his contention that if a man makes 10% profit and a man takes 5% out and leaves 5% in, then in fairness he is entitled to earn on that 5% he left in

35	18381	Mr. Bruneau claims that the third difference is due to deductions from capital stock by Mr. Howson
36	18382 18714	The fourth difference is that Mr. Howson added \$9,000,000 to the present assets of the Company which he thought were undervalued
36	18382-3 18382-3	Mr. Howson takes a fire insurance appraisal at approximately \$13,000,000 and claims it is the true value of the Company's plant while on the books after allowance for depreciation it is shown at \$4,000,000
188	18383	The amount of \$24,000,000 earned for the shareholders is available to them only in the event of all the Company's mills being destroyed by fire
	18384-4A	Mr. McRuer states that nowhere in Ex. 917 is it stated that this amount is indicated as being available to the shareholders and that Mr. Bruneau has confused the line dealing with undistributed surplus of \$5,724,000 and the line dealing with the \$9,000,000 item
	18384A	Mr. Bruneau claims that money has been earned for all persons interested in the Company and not for the shareholders alone
36	18384A-5	The Cornwall Mill of the Cornwall & York Cotton Co. was insured for \$173,000, was carried on the books of the Company at \$106,000 and was sold for \$10,000 (building alone, exclusive of machinery)
	18385	Since 1892 the Company has closed down only three mills
	18386	Mr. Bruneau claims that the sum of \$9,000,000 has not been earned for the shareholders
	18386	If, through a loan from its bankers, the Company paid out dividends of \$9,000,000, the directors of the Company would be charged with having impaired the capital of the Company by wrongful payment of dividends
	18386	Then if stock was issued to the shareholders against this mythical surplus it would be sub-bonus stock

18387

Mr. Bruneau contends that if Mr. Howson's principle that we can value on appraisal values is accepted by the Government, then the exemption of 7% allowed on part of the accumulated surplus under the Business Profits War Tax Act will be large enough to swallow up any claim the Government might have to make in connection with the valuation of inventories

18387

This amount was earned out of profits before the tax came

18387

To the figure of \$24,000,000 Mr. Howson included increase value added to the inventory of over \$2,000,000 while Mr. Bruneau claims that this is not yet earned by the shareholders

18388

Mr. Bruneau claims that Mr. Howson has failed to include in the capital employed by the Company for the purpose of ascertaining the percentage the Company has earned on the money invested in the enterprise

37

18388

All these differences make for the reduction from 14% to 4.95% in the average profits made by the Company

18389

After Mr. Brown had gone over the figures with Shepard he found that some corrections were to be made to his first statement

18390

18391

18778

The only objection that Mr. Bruneau has to make in the first two pages of Ex. 917 is that "inflation in initial values of plants taken over" should be restored to capital

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18392

On page 3, the dispute concerns the value of the assets in cash or kind received by the Company and the undistributed surplus available to shareholders appears to be \$5,782,000 - and the approximate total of cash returns at \$24,000,000

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On page 4, the objection is to the inflated book values for the mills there mentioned

18392

Mr. Bruneau claims that they have taken only what the Government allowed them to take but no "excessive depreciation" as stated on page

18393		On page 5, objection is made to inventory reserve and the operating profit and loss account standing on the books, March 31, 1892, which would amount to \$357,000
18393		Under profit or loss, the Company lost \$110,203.30 on Dominion of Canada bonds which the Company invested during the war and sold in 1921 at a loss
18394		There is a profit and loss account of the Gibson mill of \$70,625 when taken over
18394		Mr. Bruneau claims that the net revenues available for shareholders should be reduced by \$357,376.03
18394		The 3 items Mr. Bruneau claims should be struck off - inventory reserve, net revenues available and surplus revenues - would reduce the \$13,000,000 item by \$542,000 and the \$15,000,000 item by \$677,000
18395		Depreciation differ from figures in the books of the Company by \$545,000 being depreciation on the Mount Royal Spinning Co.
251	18509	The amounts written off were in accordance with standard practice as approved by the Income Tax Department
358	18509	The Company has no agreement whatsoever as regards municipal taxation in the city of Cornwall

INVENTORY RESERVE

<u>PAGE IN BRUNEAU'S BRIEF</u>	<u>PAGE IN McRUER'S BRIEF</u>	<u>PAGE IN McRUER'S ARGUMENT REBUTTAL</u>	<u>S U B J E C T</u>
6		18512	The Company has at all material times carried its raw cotton at a fixed arbitrary price without regard to the fluctuations of the market
5		18513	Finished goods were carried at the listed selling price less a substantial discount
5		18513	A similar discount has applied to goods in process
5		18513	As the company could not value its inventory at listed selling price, its estimate was made by taking a discount off the listed selling price
6		18513	Discounts prior to 1916 have been accepted as proper and reasonable and those claimed to have been too large are those after 1916
		18514	The War Profits Tax Act passed in 1916 was retroactive to March 31, 1914
4		18514	Even before the 1916 Law a discount was carried and that practice began in 1910
		18515	The Commissioner states that the point is whether the system in force was a satisfactory one from the point
		18515	The inventory book shows that on April 1st, 1910 the manufactured goods in inventory were subject to discount of 10.5.5 off the selling listed price (18,775)
		18516-7	This 10, 5 and 5% is worked out as follows 10% is taken off 5% is taken off the reduced amount 5% is taken off that amount It works out substantially less than 20%
		18518	In 1910 that applied only to manufactured goods and there was no writing down of supplies or in cotton in process
6		18525	Goods in process and raw materials were taken at cost value
		18525	In 1911, a further 10% was taken of

		18526	The reciprocity agreement of 1911 probably led the company to think its inventories would be affected and took another 10% off
		18527	Mr. McRuer believes they did likewise in 1936, i.e., wrote down the inventory and consumed some of the profits so that they would not show in the balance sheet
33	393	18509	Discount on inventories couldnot be included as profits until the goods were sold
		18527	The discount on manufactured goods amounted to 26.8975 while the goods in process and raw material remained at cost
		18528	On April 1, 1912, the system of 10, 5 and 5 was abandoned and carried the discount at a straight 19%
5		18528	On March 31, 1916, before the Act was passed, the discount was 25% on finished and unfinished goods in process and raw material was still carried at cost
		18530	
		18528	In 1913, 1914 and 1915, the discount was at the rate of 20%
		18530	Raw cotton is carried at the same price, although in 1916 the prices had begun to rise
		18531	The Company had in inventory 6,000,000 lbs of cotton at March 31, 1916, the same as on March 1, 1915, although the market values ascertained were probably below the cost
		18532	
		18532	For 1916, Mr. Brown put on raw cotton a valuation of 12.30 a pound while the valuation used by Canadian Cottons was 7.80 a lb.
	369	18533	The variations from 1916 to 1920 are due to the different quantities in each mill
		18534	In 1916 theCornwall & York Co. which was run as a separate company took a discount of 15% on manufactured goods
		18535	The first reports filed under the Business Profits War Tax Act passed on the 18th of May 1916 comprised only one line and the company was taxed on the attached audited balance sheet

	18535	Then in March 1917 there was no departure made as to the price of raw cotton while the market price was still rising
	18536	Mr. Brown's valuation for that year was 16.5 cents a pound and the valuation used was 9.2 cents per pound. Mr. Brown's figure being the average cost during the year
	18537	This method of calculation was not adopted by Mr. Brown at the request of the Commission but because he was trying to get as nearly as possible to what was accurate
5	18537	In 1916, Discounts on goods in process and finished goods had been 25% - In 1916 they increased to 40%
8	18538	In the inventory book, from page 203 to 214, the discounts are taken at 25% while they have been re-written in red pencil at 40%
	18539	The 1916 Budget was brought down on February 16th, and assented to in May, and the Business Profits War Tax Act was brought down in the Budget
12	18540	For the first period in which the Company is asked to disclose the basis of its inventory Mr. Bruce reports that cloth and process cloth have been taken at cost less 15%, March 31, 1918 (Ex. 1062)
	18541	Mr. Bruneau claims it was a fair thing for Mr. Bruce to state it at 15% off cost
	18541	The cost had been estimated in the best possible manner and in 1918 it was reported to the Government that the goods were being carried at less than cost by 15%
	18543	During that same year the raw cotton and supplies were continued at the same amount as 1915 and 1916
	18543	For 1918, Mr. Brown's valuation was 28.5¢ as against 7.9¢, the valuation of the Company

	18544		Mr. Bruneau contends that Mr. Shepard and Mr. Brown agreed that the price for 1918 was 16.92¢
	18545		Mr. Brown who was put forward by Mr. Dawson was the man who could give the accurate figures
	18546		Mr. Brown was also examined by Mr. Kellock
	18546		Mr. McNuer states the matter is serious because it suggests that the tables used in his brief are not accurate while they have been sworn to by the person put forward to him by Mr. Dawson
	18547	18712 18715	In 1919, the Department allowed \$67,250 out of \$250,000 requested as a special reserve in anticipation of post-war drop in the price of cotton
11	18547		Having suffered very serious losses the Company submitted in its 1920 report it was entitled to revise its figures in its inventory
11	18547		At that time a full disclosure of its practice was made to the Government in a statement filed June 24th, 1921
11	18548		In this statement the Company claimed the discount taken off was not sufficient to meet the slump and reveals that the inventories are taken at cost less depreciation deducted to bring the amount to market value current within 12 months of date of inventory
	376	18549 18535	Letter quoted in Mr. McNuer's Brief refers to this statement (E. 895) and wherein it is stated the price 9¢ per lb. was reduced to 6¢ per lb. on account of the slump
		18549A	Depreciation deducted was inventory over valuation, raw cotton, ranging from 3¢ to 30¢
8		18550	Dr. Dawson (Ev. p. 11350) being examined about the inventory Reserve of \$2,277,206.81 asked that Mr. Brown appear because he was in a better position to give the information required
		18551	Again at page 11353 Mr. Dawson states that Mr. Brown could answer the questions put up to him much better
		18551	Instead of cross-examining Dr. Dawson, Mr. Kellock preferred to examine Mr. Brown

	18562	Bruneau submits that under the Act the Company claimed it was entitled to carry the cotton at cost
	18562	Taxing authorities would assume that certificates stating cotton was taken at cost would mean the cost at which the current year's cotton was bought not the value of it many years earlier
18	18564	Bruneau says Company made no real profits in 1920 when cotton was at 40¢ and jumped back to 6¢
	18655	Bruneau says figures in Inventory book are reliable and nothing was ever changed and never was any statement submitted from the book which was not in accordance with the book
30 31	18662	Citations from Parton and Varcoe's "Dominion Income Tax Law"
	18663	Parton and Varcoe express the opinion that inventories should be prepared on the basis of cost
33	18663	Bruneau submits that a particular and well established custom existed that it was fully disclosed to the taxing authorities in 1921 and 1922 was approved by them at that time and that the Company was entitled to presume that it continued acceptable until notice to the contrary was given
31	18664	Parton and Varcoe state there must be a turn over of merchandise before a profit can be said to have accrued or been received
31	18664	Ordinary commercial practice of business men must be wholly relied on in determining net profits
31	18664	Encyclopaedia Britannica states that it is absolutely impossible to determine the profits of a going concern from year to year with precision, because nothing more reliable than estimates can be given of the value of outstanding obligations
16	18664	Bruneau protests against the injustice of re opening questions which have been considered as settled for as long as 20 years, particularly after the death of the persons acquainted with the facts

	18666	In France there is a limit of seven years in which to reopen tax matters
	18666	Bruneau submits that the assessment as to the Business profits War Tax should be ignored as it was made without proper consideration of the fact that settlement had been effected after full discussion and disclosure of all the material facts
	18667	18698 Canadian Cottons does not accept the Income Tax Department's tentative assessment for \$195,000 income tax and \$67,000 interest on the basis of valuing raw cotton at the full market figure and reducing the discount on the finished goods to 20% because this taxation is on an artificial profit which was never earned
10	18667	On September 30, 1936, as a result of increased sales, the discount was lower than on March 31, 1936, by \$500,000 and this amount will necessarily go into the profits of the Company where it will be taxed at 15% (Ex. p. 11388)
	18667	Should inventories at anytime return to their level when the Income Tax Act began to apply to this Company, the amount of the Government's claim would be entirely returned to it
19	18668	System followed by Canadian Cottons is essentially a system that makes for stability in the affairs of a company
19	18668	The result of the Company's system is that it reduces the sharpness of the ups and downs and allows business to travel on a more level keel
	18668	On March 31, 1930, Canadian Cottons had on hand 6,632,000 pounds of finished goods. On March 31, 1935, this had been maintained up to 8,095,092 lbs.
	18669	The Company has recognized its responsibility to carry on its operations with due regard to its obligations to its employees and the public and has not arbitrarily shut down its plants
	18669	Cornwall, Milltown and Marysville all have an exceptionally good record in the matter of relief due partially to employment given by Canadian Cottons

	18669	In 1920 the discounts proved insufficient as an allowance to cover the depreciation in values and the Government allowed a further deduction of \$604,000
22	18669 18671	The Company at this time (1930) found itself faced with cancellations of orders amounting to 2½ million dollars
6 18	18669	If Company had not followed a policy of stability made conservative valuations of its goods and paid dividends on a moderate scale it could not have faced the situation and might have faced liquidation
22	18670	Company's experience in 1920 am ly justified the adoption of a policy of conservative valuation and its continuation to the present time
19	18670	If inventory had been carried at full prices, losses would have been accentuated and the Company's management would have been much more nervous about carrying large stocks of goods even without any consideration of income tax
22	18670	Not a single shareholder has complained of the manner in which the Company has managed its affairs
	18672	The Company could not have afforded to accept cancellations of orders had it not valued its goods on the basis suggested by the Government and arranged the remainder of its affairs and the distribution of dividends on that basis
22	18672	Any policy which produces stability in operations of companies is a benefit for the consumer. The net result of unstable conditions is to lead to dislocation of industry and subsequent increases in prices
	18672	Government saves to some extent on the system of the Company because it is the easiest system to check
	18672	Bureau submits that if the Company's system is abandoned the Company will have greater difficulty in maintaining continuous employment and in standing behind its customers in times of falling prices

16

18763

If Companies can carry their stocks at conservative figures on their books, they will be encouraged to hold them in bad times instead of throwing them on the market. This helps to prevent the disorganization and panic which sets in when a fall in prices takes place and traders rush to get rid of their stocks and merchandise.

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18674

In all companies profitable operations depend on the volume of the company's production. Volume of production can be maintained by manufacturing for stock, as well as for orders from customers, but a company which does not have its inventory protected by conservative valuations cannot safely maintain volume of production by manufacturing for inventory.

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18674

Bruneau submits these considerations should be weighed before any suggestion is made that the Company's system of conservative inventory values should be discarded.

JAPANESE COMPETITION

PAGE IN PAGE IN PAGE IN MORUER'S
BRUNEAU'S MORUER'S ARGUMENT REBUTTAL
B I L F B I L F

S U B J E C T

18325

The seriousness of the Japanese competition is pointed out in an article which appeared in 'L'Illustration' of July 20, 1935, wherein it is stated that tariff will provide an insufficient solution and that workers should be obliged to work at minimum wages with compensations made up to them otherwise by the Government in certain special industries such as the cotton

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The International Labour Office at Geneva has published a book dealing with the problem of Japanese textile competition as an international matter

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18326

Mr. Moruer contends that the industry has made an outcry before it has been actually hurt by the Japanese competition

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Mr. Bruneau states that this subject must be regarded as a menace and should be dealt with before any complication results

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The Commissioner suggests that Mr. Bruneau as Counsel for the Company which complained the loudest and was the most outspoken, should have some concrete suggestion to offer

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Letter of Mr. Dawson to Mr. Dunning dated Feb. 25, 1936, was a plea to leave matters where they had been prior to the 1st of January, 1936

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The Company, no doubt, wants to preclude the entry of Japanese goods into the country

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The delegation that saw the ministers on the 15th of January came to protest against the steps that were taken

18331

In Milltown, where direct competition is felt the following decrease has been made

	<u>Jan. 15/36</u>	<u>Jan. 15/37</u>
Looms run	486	419
Yards woven	98,502	85,692
Pounds woven	31,689	26,558

34	18332	Report made by Mr. Marx of Associated Textiles of Canada Ltd, attributed to Mr. Tolmie of Canadian Cottons Ltd. the statement that Japanese goods had forced the shutdown of the Milltown Mill
33-5	18333	Mr. Dawson declared Mr. Tolmie was not examined on the point - no one on behalf of Canadian Cottons made that statement (June 16)
33	18333	Extracts quoted from memorandum attached to letter of Feb. 25/36 (Ex. 502) are sufficiently long
	18334	The memorandum refers to a subject much more limited than would appear from the brief
	18334	From the portion cited of the 3rd paragraph one would imagine that a total shut down in regions generally was being spoken of by the company whereas this is not the situation
	18335	Curtailment in production would appear to be greater from the extracts than they actually were
34	18336	The telegram shows that Mr. Tolmie was concerned with an offer of Japanese goods at a price substantially below the Canadian cost of production
33	18336	Mr. McRuer claims that in the letter of Feb. 25 (Ex. 502) Mr. Dawson is quite specific in what he asks for
	18337	Mr. McRuer shows that the purchase of yarns have ranged from 289,996 pounds in 1931 to 634,362 pounds in 1936
	18345	The Commissioner states that in view of the increasing quantities of purchased raw material the alarm was not so great as some of the letters would indicate
	18345	Although production was being reduced as of Jan. 16/36 and by purchasing such large quantities the Company was doing its best to continue operations

36	18346	Mr. Dawson submitted to the secretary a letter with various annexes showing the extent of the cancellation of orders attributable to Japanese competition
	18346	It appears in Mr. Dawson's evidence (p.7123-4) that cancellations were avoided because the company stood behind its customers by either meeting the Japanese terms or allowing cancellations and by stopping production in competitive lines
	18347	Expansion has taken place on the lines which are not yet in competition with Japanese goods
36	18349	The increase in wages granted on December 1st, 1936, does not establish that the Company is not affected by Japanese competition
36	18349	While Mr. McRuer claims that the statements made by Officers of Canadian Cottons Ltd are unfounded, Canadian Cottons submits that they were strictly true and in the best of faith
36	18350	A little prosperity at the moment does not dispose of the danger
38	18350	Mr. Johnson's statement that they are not affected by Japanese competitions applies to yarns only and not to the lines manufactured by Canadian Cottons Ltd.

PAGES AND LABOUR

<u>PAGE IN</u> <u>BUREAU'S</u> <u>BRIEF</u>	<u>PAGE IN</u> <u>MORNER'S</u> <u>BRIEF</u>	<u>PAGE IN</u> <u>ARGUMENT</u>	<u>MORNER'S</u> <u>REBUTTAL</u>	<u>A</u> <u>B</u> <u>C</u> <u>D</u> <u>E</u> <u>F</u> <u>G</u> <u>H</u> <u>I</u> <u>J</u> <u>K</u> <u>L</u> <u>M</u> <u>N</u> <u>O</u> <u>P</u> <u>Q</u> <u>R</u> <u>S</u> <u>T</u> <u>U</u> <u>V</u> <u>W</u> <u>X</u> <u>Y</u> <u>Z</u>
20		18510	The 10% wage cut took place in 1933 - 5% was restored in 1934 and full restoration took place in December 1936	
21		18510	Statistics show that in 1933 cost of living had fallen by 25% and in 1934 it was still 20% down	
	415	18511	The right of the employees to organize in their own interests has never been denied	
		18511	Mr. Brunson is not prepared to state whether the Company would deal with organized labour or not	

ACCOUNT BY F. LAJOIE, E.D.

COUNCIL FOR WABASSO COTTON CO.

<u>PAGE IN</u> <u>ACCOUNT</u>	<u>WHITEHEAD'S</u> <u>FILE</u>	<u>WHITEHEAD'S</u> <u>ACCOUNT</u>	<u>EXPLANATION</u>
16155	191		As stated by Mr. Beauregard, Ex. 1330 shows the increase granted to employees of the Wabasso Cotton Co.
16155	189		Dining Rooms although not officially inaugurated are not yet opened to workers
16155		15986	Ex. 1333 is a declaration of Mr. Whitehead concerning the instalment of non-contributory sickness insurance in October, 1936
16157			No premiums are paid by the workers and indemnities are divided into 3 groups, \$3, \$5 and \$10 weekly
16157			It has been shown after several unsuccessful attempts that unions do not last in the cotton industry
16157			Mr. Lajoie contends that instead of helping the cotton industry in its progress, unions hamper relations between workers and employees
16157			Workers at the Wabasso plant were apparently satisfied until Mr. Bastien arrived, and although he had said that the time was not ripe yet the workers went on strike
16158	176	16129	The strike occurred immediately following the amendments to the Women's Minimum Wage Law
16158	176	16129	Displacement of male workers when Cocompany availed itself of permission given by Art. 17A of the Minimum Wage Act to employ women from 3 p.m. to 11 p.m. was a serious grievance of the male workers
16159	78	15084-5	Children's wages were paid in the case where married men begged for any sort of work rather than stay idle

16159			Mr. Lajoie claims that the well outfitted dining room is not very much frequented
16160	134	14814	Rates of wages although low have been shown to be always within the minimum
16160	77	15075	Mr. Lajoie claims that the industry cannot be blamed for having mechanized to keep pace with competition, increase its industry and production and at the same time endeavour to reduce employment
16161	148	16141	Wabasso having paid no dividends since 1930 or 1930 labour and wages cannot be said to have suffered in order to provide funds for the payment of dividends
16161			In the prosperity era, the depression years could not be foreseen
16162		14971	Shareholders of to-day are not the same as a few years ago and the shares are distributed among the public
16162	173	16125	2 different unions with varying objectives, are trying to negotiate collective contracts and the Company is at a loss to know with which one of the 2 unions it should deal

